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Op-ed: No clarion call from Republicans

By: Rep. Brad Miller

An explanation for the financial crisis that exculpates the financial industry and Republicans requires an acrobatic imagination. But blaming liberals is conservatives' core competency.

The collapse of credit markets in 2008, more than 7 ½ years into a Republican administration, was the result of a 1977 civil rights law, the Community Reinvestment Act, conservatives declared. The CRA forced lenders, against their better judgment, to give mortgages to poor and minority borrowers.

And liberals in Congress, like Barney Frank and Maxine Waters, pressured Fannie Mae and Freddie Mac for more lending to minorities.

- Fox News' Neil Cavuto interviewed Democratic Rep. Xavier Becerra on Sept. 18, 2008. Cavuto asked, "Are you totally without culpability here? Are you totally blameless? ... I'm just saying, I don't remember a clarion call that said, 'Fannie and Freddie are a disaster. Lending to minorities and risky folks is a disaster.'"

- "The Community Reinvestment Act is to blame for the financial crisis," read a Nov. 28, 2008, editorial in Investor's Business Daily. "The CRA coerces banks into making loans based on political correctness, and little else, to people who can't afford them," the editorial insisted. The law "destroyed credit standards across the mortgage industry, created the subprime market and caused the housing bubble that has now burst and left us with the worst housing and banking crisis since the Great Depression."

- At a congressional hearing on March 11, 2009, Rep. Jeb Hensarling (R-Texas) blamed the financial crisis on "government policies ... that ultimately attempted to incent, cajole or mandate financial institutions into lending money to people to buy homes who ultimately could not afford to keep those homes."

"One can look at the Community Reinvestment Act — again, very noble in intent, designed to deal with a very serious problem of redlining at the time," Hensarling said. "But ultimately it helped put the federal government's seal of approval not so much on helping raise the economic opportunities of the borrower but instead [on] bringing down the lending standards of the lenders."

At the time the disastrous subprime mortgages were made, however, conservatives were playing a different tune on their clarions.

From 2004 to 2006, during the heyday of subprime lending, Republicans in Congress and conservative pundits said not a word about liberals bullying lenders to make the loans that have now brought the world's economy to grief.

Instead, they celebrated subprime mortgages as a triumph of the innovation that resulted from unfettered capitalism, parroting the financial industry's own lavish praise for itself.

"I need not remind my colleagues on the committee that Americans currently enjoy the highest rate of homeownership in the history of America," Hensarling said at a congressional hearing on May 24, 2005. "The benefits of free enterprise and competition have been plentiful. With the advent of subprime lending, countless families have now had their first opportunity to buy a home or perhaps be given a second chance. The American dream should never be limited to the well-off or those consumers fortunate enough to have access to prime rate loans."

The conservative Cato Institute published an article in the fall of 2000 that said CRA should stand for Community Redundancy Act. The article argued that "progress predicated on technology, financial innovation and competition — not CRA — has broadened the U.S. financial marketplace," including lending in neighborhoods that had once been redlined. If a lender discriminated against a low-income neighborhood, "the profit motive would lead another lender to move in and fill the void."

Proof that increased lending in low-income neighborhoods was not the result of requirements of the CRA, the Cato article said, was that much of the lending was by "institutions outside CRA's

jurisdiction."

I appeared with Stephen Moore on CNBC on Oct. 25, 2007. Moore is a member of the Wall Street Journal editorial board and founded the Club for Growth. Moore said that legislation I introduced to protect homeowners from predatory mortgage lending would have a "negative effect on homeownership." "Ultimately," Moore said, "for all the talk of how evil the subprime lenders are, let's not forget, you know, 94 percent of these subprime loans are paid on time. And subprime lenders have actually increased the rate of homeownership in America."

The argument that the Community Reinvestment Act caused or even contributed to the financial crisis is easily demolished and has been repeatedly. The Cato Institute was correct: The CRA had little to do with the explosion of unsustainable subprime mortgages.

But either way, there was certainly no clarion call at the time from conservatives warning that we were on the road to ruin.

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